

EX PARTE OR LATE FILED

ORIGINAL

WILEY, REIN & FIELDING

1776 K STREET, N. W.

WASHINGTON, D. C. 20006

(202) 429-7000

March 23, 1993

DOCKET FILE COPY ORIGINAL
FACSIMILE

Ms. Donna R. Searcy
March 23, 1993
Page 2

Kindly direct any questions regarding this matter to
the undersigned.

Respectfully submitted,

L. J. T. THAKIM

EXHIBIT B

RECEIVED

THE LEARNING CHANNEL AFFILIATE RATE CARD

MAR 23 1993

RATE/SUB/MONTH CHARGES
FOR SUBSCRIBERS:

	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>
1-199,000	\$0.070	\$0.085	\$0.095	\$0.110	\$0.125
200,000-599,000	\$0.065	\$0.080	\$0.090	\$0.105	\$0.120
600,000-999,000	\$0.060	\$0.075	\$0.085	\$0.100	\$0.115
1,000,000-And Above	\$0.055	\$0.070	\$0.080	\$0.095	\$0.110
Charter Discount/Sub/Mo.	\$0.035	\$0.040	\$0.045	\$0.050	\$0.055

FOOTNOTES TO TLC RATE CARD

- (1) Rates shown above are applicable to systems that carry TLC on their basic tier. Tiering surcharges will be assessed to compensate for lost affiliate and ad revenue if certain system penetration levels are not achieved. Each system's net effective rate will be multiplied by factors shown in the following table:
- (2) Subscribers in newly launched cable systems through 1993 are free for a period of twelve months. Subscribers launched in 1994, 1995, and 1996 will be free until the end of that year.
- (3) Affiliate agrees to package TLC with a minimum of 5 other 24-hour ad-supported

MAR 23 1993

COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

DISCOVERY COMMUNICATIONS

Presentation to the Federal Communications Commission

TABLE OF CONTENTS

I.	Overview	p. 1
II.	Importance of Volume	p. 4
III.	Affiliate Rate Card History	p. 9
IV.	Rate Regulation	p. 22
V.	Recap	p. 31
VI.	Proposed Solutions	p. 34
VII.	General Information on The Discovery Channel & The Learning Channel	p. 37

OVERVIEW:

THE DISCOVERY CHANNEL

AND

THE LEARNING CHANNEL

DISCOVERY AND LEARNING

- "Edutainment"**
- Films and Documentaries that Educate and Entertain**
- Using Television to Educate, Inspire & Broaden People's Perspectives**

THE DISCOVERY CHANNEL:	60 MILLION HOMES
-------------------------------	-------------------------

Documentaries on nature, the environment, science & technology, human adventure, history & exploration.

THE LEARNING CHANNEL:	20 MILLION HOMES
------------------------------	-------------------------

Films, series, & documentaries on history, science, civilization. Plus how to's from experts on cooking, gardening, & home improvement. For preschoolers, Ready, Set, Learn! Six hours a day of commercial-free, violence-free programs teaching kids to read, to conceptualize, socialize, & be ready for school.

IMPORTANCE OF VOLUME

WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES:

- **AD REVENUE VARIES IN DIRECT PROPORTION TO THE NUMBER OF VIEWERS.**
- **EACH AD BUY PROMISES A SPECIFIC NUMBER OF VIEWERS.**
- **THE NUMBER OF VIEWERS IS DERIVED FROM 2 SOURCES:**
 - **COVERAGE: TOTAL NUMBER OF HOMES THAT CAN RECEIVE YOUR SERVICE**
 - **RATING: THE PERCENT THAT ACTUALLY WATCH**
- **THE MORE SUBSCRIBERS WHO CAN RECEIVE YOUR SERVICE, THE MORE POTENTIAL VIEWERS (ASSUMING YOU CAN ENTICE THE SAME PERCENTAGE TO WATCH):**
 - **20M SUBS X 1 RATING = 200,000 VIEWERS**
 - **60M SUBS X 1 RATING = 590,000 VIEWERS**

WHY VOLUME IS CRITICAL TO ADVERTISING BASED SERVICES CONT...

A CURRENT "REAL WORLD" EXAMPLE:

TLC: 20M SUBS X .2 RATING = 40,000 VIEWERS

TDC: 60M SUBS X .6 RATING = 360,000 VIEWERS

IMPACT ON AD REVENUE OF LOWER SUBS AND LOWER RATINGS IS SUBSTANTIAL:

TLC AD REVENUE PER VIEWER = \$150

\$150 X 40,000 VIEWERS = \$6 MILLION

AVERAGE UNIT RATE: \$60

TDC AD REVENUE PER VIEWER = \$266

\$266 X 360,000 VIEWERS = \$96 MILLION

AVERAGE UNIT RATE \$750

**THE CRUCIAL
CONNECTION BETWEEN
SUBSCRIBER NUMBERS
AND AD SALES REVENUE**

OUR OPERATING PHILOSOPHY

- . Because two things determine Ad revenue, total homes who can see our services and the percent who actually watch, we have 2 fundamental strategies:**
 - 1. Incent "everyone" (cable, SMATV, MMDS, etc) to make our services available to the largest number of homes.**
 - 2. Invest in programming. Constantly enhance program quality so people "tune in" and watch.**

AFFILIATE RATE CARD HISTORY

AFFILIATE RATE CARD HISTORY

1986

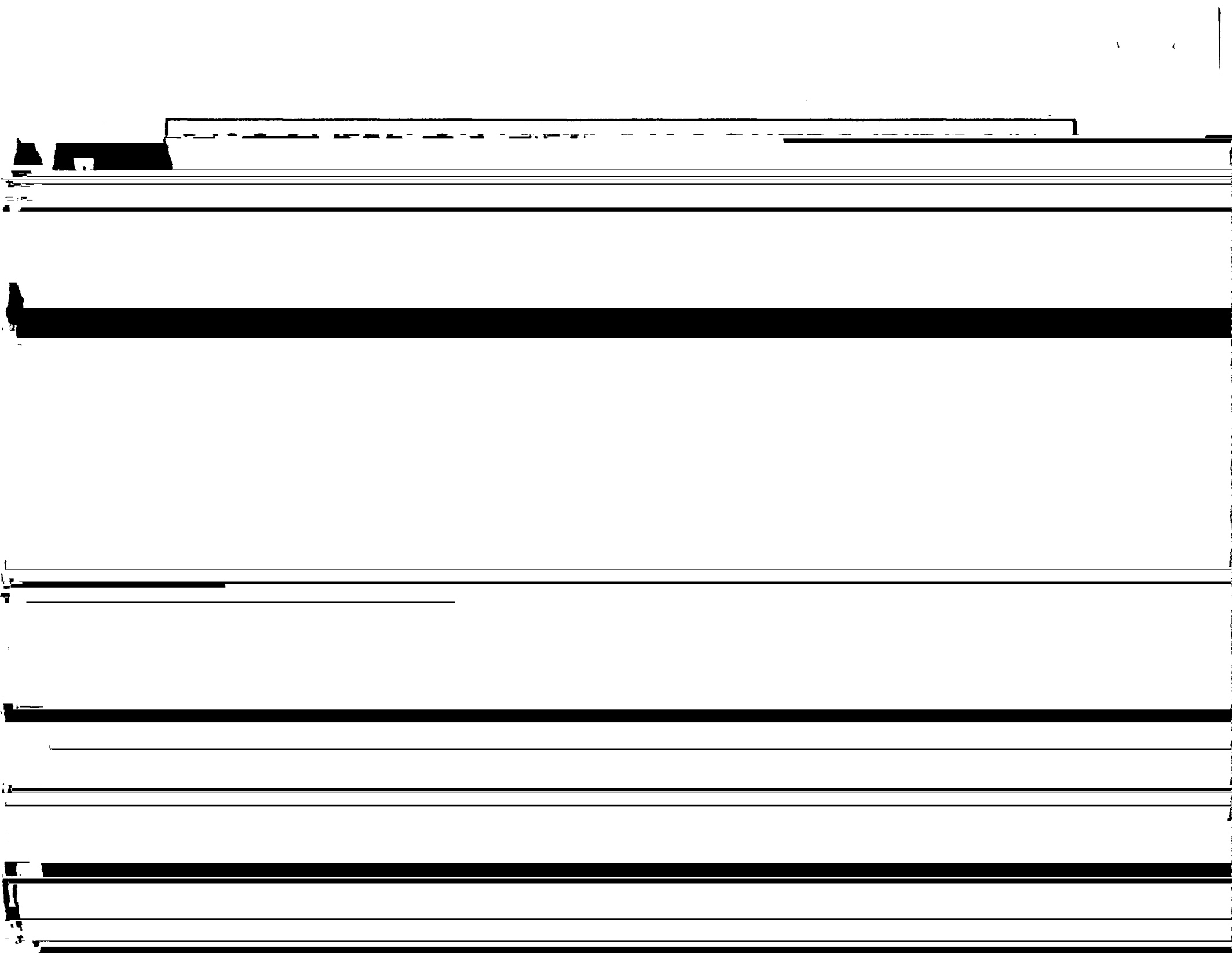
- **WE HAD 7 MILLION SUBS**
- **ALL FREE, NO LICENSE FEES, NO AFFILIATE REVENUE STREAM**
- **NO AD SALES, TOO SMALL TO BE METERED BY NIELSEN**
- **TRANSLATE - LOSING A LOT OF MONEY**
- **NO PROSPECT OF A FUTURE VIABLE BUSINESS WITHOUT AFFILIATE REVENUE AND AD REVENUE**
- **WE HAD TO INCENT DISTRIBUTION TO ACHIEVE BOTH AD AND AFFILIATE REVENUE**

OUR INITIAL STRATEGY:

ANYONE WHO RIPPED UP A FREE AGREEMENT AND PROMISED TO CARRY OUR SERVICE WAS GIVEN LOWER FUTURE RATES OVER A PERIOD OF YEARS.

TO QUALIFY, AFFILIATES HAD TO TEAR UP FREE AGREEMENTS AND SIGN UP AS A "CHARTER AFFILIATE" BY DECEMBER 1987. BEING A CHARTER AFFILIATE GAVE YOU:

- LOW RATES IN THE FUTURE**
- SMALL VOLUME DISCOUNTS TO "DRIVE" RAPID SYSTEM LAUNCHES.**
- ADVERTISING "REBATES" IF CARRIAGE BENCHMARKS WERE MET**



Discovery Has 3 Categories of Affiliate Agreements

All Based on Historical Circumstances

Total number Discovery subs	Category	Explanation
46.6 M	Pre-Jan 1988- Charter Affiliates	Charter Discounts granted: chose to terminate free agreements in exchange for long term favorable rates. Includes cable & SMATV
6.8 M	Post-Jan 1988- Noncharter & New Affiliates	Chose <u>NOT</u> to terminate free agreements in exchange for long term favorable rates. Includes cable, SMATV & MMDS
.8 M	TVRO	Did not pay us until we scrambled in Sept 1990

THE "NONCHARTER" & NEW AFFILIATE RATE CARD

1988-1993:

As "free" agreements expired for those affiliates who did not take advantage of the 1987 offer, a new "higher priced" rate card became effective. Key features of this rate card (shown on the next page) are:

- a higher top of rate card than that offered in 1987
- discounts based on volume in order to "drive" rapid system "launches"
- no ad sales "rebate"

DISCOVERY "NONCHARTER" & NEW AFFILIATE RATE CARD

<u>FOR EACH AFFILIATE</u>		<u>FEE PER TDC SUBSCRIBER PER MONTH</u>		
TDC Subscriber		1993	1994	1995
0	- 999 Plus	23.0¢	24.0¢	25.0¢
1,000	- 4,999 Plus	22.0¢	23.0¢	24.0¢
5,000	- 9,999 Plus	21.0¢	22.0¢	23.0¢
10,000	- 19,999 Plus	20.0¢	21.0¢	22.0¢
20,000	- 29,999 Plus	19.0¢	20.0¢	21.0¢
30,000	- 39,999 Plus	18.0¢	19.0¢	20.0¢
40,000	- 49,999 Plus	17.0¢	18.0¢	19.0¢
50,000	- 99,999 Plus	16.5¢	17.5¢	18.5¢
100,000	- 199,999 Plus	16.0¢	17.0¢	18.0¢
200,000	- 399,999 Plus	15.5¢	16.5¢	17.5¢
400,000	- 799,999 Plus	15.0¢	16.0¢	17.0¢
800,000	- 1,599,999 Plus	14.5¢	15.5¢	16.5¢
1,600,000	+ Plus	14.0¢	15.0¢	16.0¢

DISCOVERY RATE CARD OPERATING PRINCIPLES

- . FAIRNESS ACROSS ALL CABLE MSO'S AND SMATV/MMDS OPERATORS IS OUR CARDINAL RULE**
- . MUST BE ABLE TO "LOOK EVERYONE IN THE EYE"**
- . VOLUME IS FAIR BECAUSE IT DIRECTLY DETERMINES AD REVENUE**

**DISCOVERY DOES NOT FAVOR ITS OWNERS BECAUSE WE
CANNOT SURVIVE IF WE ONLY HAVE THEIR SUBSCRIBERS**

- . Owners pay on same rate card as everyone else**
- . Many MSOs pay less than Cox and Newhouse**
- . No exclusivity agreements in their territories (or anywhere)**
- . No extra marketing**
- . Discovery licensed alternate technology (except TVROs) at the same rate card as cable operators**

DISCOVERY RATES FOR TOP 15 MSOs

SYSTEM NAME	TDC SUBS	NET RATE SUB/MONTH
TCI	12,394,126	8.8¢
ATC/PARAGON	6,718,018	9.0¢
CONTINENTAL	2,847,529	9.6¢
COMCAST	2,370,738	9.7¢
CABLEVISION SYSTEMS	2,000,711	9.8¢

THE TVRO RATE CARD:

IN ORDER TO RESPOND TO REQUESTS FROM TVRO AFFILIATES, THE DISCOVERY CHANNEL "SCRAMBLED" ITS SERVICE. AT THAT TIME, DISCOVERY DEVELOPED A RATE CARD FOR TVRO AFFILIATES. KEY FEATURES OF THIS RATE CARDS ARE:

- A TOP OF RATE CARD THAT FELL BELOW THAT OF MOST COMPETING SERVICES BUT ALLOWED FOR INCREMENTAL COSTS ASSOCIATED WITH SERVICING THE TVRO MARKET AND**

DISCOVERY'S PENETRATION BY TECHNOLOGY

<u>CATEGORY</u>	<u>UNIVERSE</u>	<u>12/92 DSC SUBS</u>	<u>%</u>
CABLE	62,000K	59,000K	95%
SMATV	830K	553K	<u>66% - 80%</u>
MMDS	282K	232K	82%
PAYING TVRO	1032K	832K	81%
TOTAL ALTERNATE TECHNOLOGIES	2144K	1617K	75%